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Statistics of international trade in services

Note by the Secretary-General

In accordance with a request of the Statistical Commission at its thirty-eighth session,** the Secretary-General has the honour to transmit to the Commission the report of the Inter-agency Task Force on Statistics of International Trade in Services. The report is submitted to the Commission for information. The Commission is requested to take note of the work done by the Task Force, in particular in revising the *Manual on Statistics of International Trade in Services*, its future work programme and the proposal for a joint meeting with the Task Force on International Merchandise Trade Statistics.

* E/CN.3/2008/1.

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Report of the Inter-agency Task Force on Statistics of International Trade in Services

Contents

		Paragraphs	*Page*
I.	Activities since the thirty-sixth session of the Statistical Commission	1	3
II.	Revision of the *Manual on Statistics of International Trade in Services*	2–6	3
III.	Proposed structure of the revised *Manual*	7–23	4
IV.	Progress and next steps in the revision of the *Manual*	24–25	7
V.	Contribution to revisions of other frameworks	26–27	8
VI.	Technical cooperation and expert meetings	28–29	8
VII.	Dealing with cross-cutting issues between trade in goods and trade in services	30–33	9
VIII.	Communications	34–35	9
IX.	Remittances and the technical sub-group on movement of natural persons	36	10
Annex			
	Terms of reference of the Inter-agency Task Force on Statistics of International Trade in Services		11

I. Activities since the thirty-sixth session of the Statistical Commission

1. Since its report on the thirty-sixth session in 2005 (E/CN.3/2005/6), the priority of the Task Force has been to plan and manage the revision of the *Manual on Statistics of International Trade in Services* and to contribute to the revision of related frameworks such as the *Balance of Payments Manual* of the International Monetary Fund (IMF). The Task Force's technical sub-group on movement of natural persons, convened by the Statistical Division of the Secretariat, has completed its work, producing recommended definitions of remittances in the balance of payments and developing basic concepts related to measuring mode 4 supply of services. The technical sub-group was disbanded in 2006.

II. Revision of the *Manual on Statistics of International Trade in Services*

2. Although the *Manual on Statistics of International Trade in Services* was first published as recently as 2002, an updating became necessary with the revision of the System of National Accounts, the *Balance of Payments Manual*, the International Standard Industrial Classification of all Economic Activities (ISIC) and the Central Product Classification (CPC) and publication of or revisions to a number of other related statistical frameworks. The extent of the changes necessitated by and related to trade in services in these other frameworks led the Task Force to speak of a revision rather than an updating. The revision nonetheless was planned to be limited in scope but could incorporate some improvements to the *Manual*, so long as they were in line with the basic 2002 framework.

3. The process of the revision of the *Manual on Statistics of International Trade in Services* began in mid-2006 with a worldwide consultation on issues for the revision.

4. A consultation document and questionnaire, agreed to in April 2006 by the international agencies in the Task Force, explained the reasons for the update, presented the timetable and posed specific questions on a range of identified issues for the revision.

5. The consultation document and questionnaire was sent to all national statistics offices by the Statistics Office, to all balance of payments correspondents by IMF, and by the World Trade Organization to all its national trade delegations. The document was also sent to a wide range of interested international organizations. The document was made available in five languages (Arabic, English, French, Russian and Spanish), and placed on the Statistics Division's website. Some 110 replies were received from 89 countries and 6 international organizations.

6. The Task Force summarized and reviewed the responses, which were used to inform discussion of detailed proposals for changes to the *Manual*. Draft chapters were then prepared. Proposals were presented and discussed at the expert meeting on trade-in-services statistics convened by the Organization for Economic Cooperation and Development (OECD) and Eurostat on 19 September 2007, which was attended by more than 40 countries from all continents. At its September 2007

meeting the Task Force discussed the proposals and a set of draft chapters and annexes. This was followed by a period for further written comments.

III. Proposed structure of the revised *Manual*

7. The Task Force proposes the following general structure with some broad changes to the *Manual*, while proposals for a number of detailed changes are yet to be agreed upon.

Chapter I
Foundations of the *Manual*: general introduction and overview

Chapter II
Conceptual framework for the development of statistics on international trade in services

8. The detailed discussion on modes of supply will be removed, expanded and incorporated in to a new chapter V on modes of supply. Chapter II will include a description of the links to other related statistical frameworks.

Chapter III
Service transactions between residents and non-residents

9. This chapter discusses service transactions in the balance of payments and will incorporate changes from the sixth edition of the *Balance of Payments Manual*. The goods and services account of the sixth edition will provide the high-level structure for the revised Extended Balance of Payments Services Classification (EBOPS). Notable new items are manufacturing services and repairs and maintenance on movable goods. Telecommunications is split from postal services and grouped with computer and information services. Financial services will include financial intermediation services indirectly measured, and the definition of insurance services is amended in line with the revised System of National Accounts. The content of the royalties and licence fees category is clarified and the category will be renamed, perhaps as fees for the use of intellectual property. Merchanting of goods is removed from services and will be included with trade in goods.

10. Most responses from the worldwide consultation advised against changing the level of detail of the Extended Balance of Payments Services Classification, which currently contains about 75 categories. A number of specific changes were suggested. It was proposed to eliminate a few little-used EBOPS items and any redundant memorandum items and to introduce a limited number of new EBOPS and memorandum items. In this vein a provisional list of proposed changes to EBOPS has been identified based on countries' suggestions and this will be further refined. It is proposed to improve the descriptions of services in the chapter. The proposed high-level structure of the revised EBOPS, based on the sixth edition of the *Balance of Payments Manual*, is as follows:

1 Manufacturing services on physical inputs owned by others

2 Repairs and maintenance on movable goods

3 Transport

4 Travel

5 Telecommunications, computer, and information services

6 Construction

7 Insurance and pension fund services

8 Financial services

9 Fees for the use of intellectual property (name not decided)

10 Other business services

10.1 Research and development services

10.2 Professional and management consulting services

10.3 Technical, trade-related and other business services

11 Personal, cultural, and recreational services

12 Government (not included elsewhere)

Chapter IV
Foreign affiliates statistics and the international supply of services

11. Since the *Manual on Statistics of International Trade in Services* was published in 2002, there have been a number of important developments related to foreign affiliates trade-in-services (FATS) statistics and an increasing policy interest in them. First, the OECD *Handbook on Economic Globalisation Indicators* was published in 2005, early drafts of which were the basis for chapter 4 of the original *Manual*. Second, the regulation of the European Parliament and of the Council on Community statistics on the structure and activity of foreign affiliates was approved in June 2007. Eurostat also published a recommendations manual on the production of foreign affiliates statistics in 2007. Third, the draft of the fourth edition of the OECD Benchmark Definition of Foreign Direct Investment, due to be finalized by mid-2008, has a chapter on foreign direct investment and globalization with recommendations on statistics on the activity of multinational enterprises, which includes FATS statistics.

12. The Task Force has been concerned to ensure that the revised FATS chapter in the *Manual* should be consistent with these other texts and to this end has sought to influence the OECD definition. While each text has a slightly different focus and the *Manual* has a particular interest in the General Agreement on Trade in Services (GATS) and supply of services through a foreign commercial presence, nonetheless the basic framework of statistics on the activities of multinational enterprises and their foreign affiliates should be the source of information for each text, with a maximum of international comparability. With this basic aim, OECD has produced a draft text, with considerable assistance from the United States Bureau of Economic Analysis, which is aligned with the latest draft of chapter 8, on foreign direct investment and globalization, of the fourth edition of the OECD Benchmark Definition, which in turn was closely coherent with the OECD handbook and chapter 4 of the original *Manual*. Text specific to the trade-in-services interest is retained in the *Manual* chapter. A number of issues were identified for further discussion.

13. On the title of the chapter, the Task Force supported the proposed new title "Foreign affiliates statistics and the international supply of services". The Task Force considered that this would help to reduce confusion by making clear that foreign affiliates statistics were not a part of international trade in services but were relevant to describing the commercial presence mode of supply and related market access issues. The acronym FATS was to be kept, with an explanation of the link to statistics on the activity of multinational enterprises.

14. The issue of continuing to use "majority ownership" as the target criterion for FATS was discussed. The Eurostat foreign affiliates regulation used the concept of "control", where a controlled affiliate is majority owned. This was also the concept favoured by the OECD handbook. Control could be transmitted along the chain of ownership provided that at each step (i.e. for each intermediate affiliate) there existed majority ownership. This issue would be addressed in the revised chapter 4.

15. Majority ownership is defined as the majority ownership of ordinary shares or voting power, in line with the OECD handbook and the revised OECD Benchmark Definition.

16. The Task Force supported proposed additions to the text to emphasize the need for international aggregation without double counting of outward FATS. This could be achieved by identifying the subset of outward foreign affiliates for which the reporting country was the country of residence of the ultimate controlling institution.

17. The Task Force supported the inclusion of a new variable "purchases of goods and services", which would be in the list of recommended variables for inward FATS. Regarding the ISIC categories for foreign affiliates statistics (ICFA), this still needed further work.

18. The measure of employment was discussed regarding the merits of using number of persons employed or full-time equivalents. It was agreed that consistency with other related frameworks such as national accounts was necessary. There was a suggestion to include a gender breakdown of employment.

19. At its October 2007 meeting, the IMF Balance of Payments Statistics Committee identified a need for more education on the use of foreign affiliates statistics in the context of international trade in services analysis. It proposed a joint article to be prepared with OECD and Eurostat.

Chapter V
Measuring modes of supply

20. The World Trade Organization has developed a draft of the proposed new chapter V on modes of supply of services, including material on mode 4 and the measurement of supply of services by mode. The Task Force reviewed the draft and provided detailed comments.

21. A request was made for a general table providing an approximate allocation of EBOPS items and FATS by mode of supply.

Annexes

22. The proposed annexes to the *Manual* include:

I. EBOPS

II. Concordance between EBOPS 2009, the Central Product Classification version 2.0 and the GATS Service Sectoral Classification List (GNS/W/120)

III. Approximate concordance between EBOPS 2009 and ICFA (based on ISIC, revision 4)

IV. Extract from GATS

V. GNS/W/120

VI. The *Manual* and the Tourism Satellite Account

VII. Analytical annex

23. Following widespread support for an analytical annex in the consultation process, OECD has prepared an outline of an analytical annex that would provide countries with guidance and a set of tools to analyse and add value to basic statistics on trade in services and FATS. The Task Force has reviewed this draft annex and provided comments.

IV. Progress and next steps in the revision of the *Manual*

24. The progress to date can be summarized as follows:

(a) Spring 2006: preparation of issues paper on updating of the *Manual*;

(b) May to July 2006: worldwide consultation on issues relating to updating;

(c) August 2006 to January 2007: detailed review by the Task Force of comments from the worldwide consultation and initial drafting of chapters and annexes.

25. The Task Force agreed on the following next steps and timing in the revision process:

(a) The Task Force would provide comments on the draft chapters (II, IV and V), EBOPS and the analytical annex by the end of October 2007;

(b) OECD would redraft EBOPS in line with the draft sixth edition of the *Balance of Payments Manual* by December 2007;

(c) Chapters II, III, IV and V together with the Tourism Satellite Account and analytical annexes would be redrafted by authors by the end of February 2008;

(d) ICFA proposals in ISIC, revision 4, would be developed by Eurostat by the end of February 2008;

(e) Following a March 2008 Task Force meeting to review the redrafted chapters of the *Manual on Statistics of International Trade in Services*, a three-month worldwide consultation on proposals for the *Manual* would start in May 2008;

(f) The Task Force would review comments and prepare the final draft towards the end of 2008;

(g) The Task Force and its agencies would take opportunities to present the *Manual* proposals and discuss them with expert groups/seminars throughout 2008;

(h) The final draft of the *Manual* including annexes would be submitted to the Statistical Commission in December 2008;

(i) The *Manual* would be published in 2009.

V. Contribution to revisions of other frameworks

26. Since its last report, the Inter-agency Task Force has provided extensive input and advice to the IMF Balance of Payments Committee on measurement of trade in services. It has also monitored relevant developments in revisions of the System of National Accounts and the Central Product Classification and provided advice where appropriate.

27. In the other direction the Task Force has received considerable input from the World Tourism Organization on tourism statistics and the revised *Manual* will be much more compatible with the revised *Tourism Satellite Account Recommended Methodological Framework*.

VI. Technical cooperation and expert meetings

28. A number of expert meetings and training workshops on trade-in-services statistics have been held in the recent past:

(a) World Trade Organization, trade-in-services workshop in Taipei, Taiwan Province of China, May 2006;

(b) Association of Southeast Asian Nations, trade-in-services statistics workshop in Kuala Lumpur, 4-8 September 2006;

(c) OECD-Eurostat, expert meeting on trade-in-services statistics in Paris, 13 and 14 September 2006;

(d) Economic and Social Commission for Western Asia, trade-in-services workshop in Cairo, 6-9 February 2007;

(e) World Trade Organization, trade-in-services workshop in Pakistan in March 2007;

(f) IMF, seminar on trade-in-services for African countries in Tunis, 23-27 April 2007;

(g) OECD-Eurostat, expert meeting on trade-in-services statistics in Paris, 19 September 2007.

29. The next OECD-Eurostat expert meeting on trade-in-services statistics is tentatively set to be held on 17 September 2008 in Paris.

VII. Dealing with cross-cutting issues between trade in goods and trade in services

30. The World Trade Organization, in cooperation with OECD and the Statistics Division, prepared a discussion document on the work of the Task Force on International Merchandise Trade Statistics. The discussion document in particular set out a proposal for a joint meeting with the Inter-agency Task Force on Statistics of International Trade in Services in 2008. There are a number of trade-related measurement issues which either cross-cut trade in goods and trade in services or do not fall clearly in the competence of either task force. The boundary between goods and services is increasingly blurred and while it has a particular interest for trade negotiations it is less important for many other analytical purposes, where it may make more sense to look at trade in goods and services together. It should be noted that the terms of reference of the Inter-agency Task Force focus heavily on the information needs of trade negotiations (see annex to the present report).

31. It was felt in the Inter-agency Task Force that both trade task forces worked well, but that it would be useful to have a joint meeting or meetings to discuss particular common issues, which should lead to new outputs. A proliferation of meetings should be avoided.

32. The Inter-agency Task Force on Statistics of International Trade in Services agreed on the following statement:

> The Task Force affirmed its priority to revise the *Manual on Statistics of International Trade in Services* according to the timetable set. The Task Force decided that a March 2008 meeting of two to three days was necessary and practical to keep to the revision timetable.
>
> The Task Force agreed in principle to the proposal for a joint meeting, which would be a forum to discuss specific cross-cutting issues. There was a strong view that the joint meeting (or meetings — if it were decided that there should be more than one) should be issue-driven and that the question of what should be the output of the joint meeting(s) was important. There was not felt to be a need for a new organizational structure. On the issue of goods for processing/manufacturing services, the Task Force agreed that work to develop compilation guidance was important.

33. It has subsequently been agreed that the two task forces will meet in parallel at the headquarters of the United Nations Industrial Development Organization in Vienna on 26 and 27 March 2008 and hold a joint meeting on 28 March. It is planned that compilation guidance regarding goods for processing/manufacturing services will be on the agenda of the joint meeting and there will be a need to liaise with the national accounts group also looking at this subject.

VIII. Communications

34. The Statistics Division maintains a website for the Task Force where documentation and papers including accounts of meetings are posted. An electronic discussion group has been created to work on drafts of the *Manual*. The Task Force plans to issue a newsletter starting at the end of 2007.

35. The Task Force can be contacted at Std.servstat@oecd.org.

IX. Remittances and the technical sub-group on movement of natural persons

36. Although the results have already been reported to the Commission, for completeness it should be reported that the task force established, on the initiative of the Statistics Division in 2004, a technical sub-group on movement of natural persons. Originally set up to develop a conceptual framework for measuring mode 4 trade in services, it was requested to assume the task of clarifying definitions and concepts associated with remittances. Its recommendations on remittances, with minor amendments, have now been incorporated into the draft sixth edition of the *Balance of Payments Manual*. The technical sub-group also progressed the framework for measuring mode 4 trade in services, and the results have been an important input to the new chapter 5 of the *Manual on Statistics of International Trade in Services* on modes of supply. The technical sub-group was disbanded in 2006.

Annex

Terms of reference of the Inter-agency Task Force on Statistics of International Trade in Services

The Inter-agency Task Force on Statistical of International Trade in Services, mandated by the Statistical Commission, was originally called the Inter-agency Task Force on Services Statistics. It was created in 1994 following a request from the World Trade Organization and the United Nations Conference on Trade and Development to the Statistical Commission to address the need for data on services to inform negotiations on the General Agreement on Trade in Services. The original mandate covered all of services statistics. The terms of reference were formally narrowed to international trade in services in 1997, so as not to duplicate the work of others such as the Voorburg Group. The name of the Task Force was similarly changed in 1997.

Current terms of reference as agreed to at the sixth meeting of the Task Force in 1997

1. The work of the Task Force focuses on the following objectives:

(a) Strengthening cooperation between international organizations in the area of international trade-in-services statistics by liaising with other agencies or groups involved with international trade in services statistics;

(b) Promoting the development of international standards, systems and classifications for international trade-in-services statistics;

(c) Improving the availability, quality and comparability of international trade-in-services statistics;

(d) Facilitating the provision of technical assistance to developing countries in the compilation of trade-in-services statistics.

2. The work of the Task Force will focus on the statistical requirements of the General Agreement on Trade in Services (GATS). Trade in services is defined in article I, paragraph 2, of GATS.

3. The Task Force will serve as a forum of communication on requirements and resources and will endeavour to rationalize efforts expended towards the achievement of its goals.